GERT SIBANDE DISTRICT MUNICIPALITY
Unaudited Annual financial statements
for the year ended 30 June 2020

General Information

Legal form of entity	District Municipality
Nature of business and principal activities	A Category C Municipality established in terms of the Structures Act 117 of 1998 which execute some of the functions of Local Government (DC30) and Section 155(c) of the Constitution of the Republic of South Africa, 1996.
Speaker	Nkosi JM
Executive Mayor	Chirwa MG
Chief Whip	Nkosi SGT
Mayoral Committee	Buthelezi BM Dhlamini ES Maboea SA Masina LL Nhlapo NS Nhlengethwa DG Sekhonde BG
Councillors	Jordaan (Botha) C Brussow JLI De Ville JR De Vries GR Dlamini LBR Greyling GS Jouibert LK Karim LS Khumalo MJ Khumalo MS Kubheka MN Maboa-Boltman NF Madonsela ME Mahlangu BD Makhubu ML Malatsi PV Mathebula SB Mazibuko KD Mbhele JS Mlotshwa TL Mkhaliphi BJ Mkwanazi CB Mtshali BH Motha VM Motloung ME Ngubeni A Ngwenya M Ngxonono TY Nkosi BG Nkosi DP Nkosi KP Nkosi MS Nkosi VL Nyembe F Sebolela JD Sibanyoni SI Sibeko PT Simelane XI Zulu TSM
Grading of local authority	3
Chief Finance Officer (CFO)	Buthelezi ZR
Accounting Officer	Habile CA

General Information

Registered office	Cnr Joubert & Oosthuise Street Ermelo Mpumalanga 2351
Business address	Cnr Joubert & Oosthuise Street Ermelo Mpumalanga 2351
Postal address	PO Box 1748 Ermelo Mpumalanga 2350
Bankers	First National Bank
Auditor	Auditor General Of South Africa
Attorneys	Panel of attorneys
Contact details	Telephone: +27 (17) 811 7000 Fax: +27 (17) 811 1207 www.gsibande.gov.za

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The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:

COGTA	Mpumalanga Provincial Department of Co-operative Governmance and Traditional Affairs
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
DWS	Departmant of Water and Sanitation
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
GSDM	Gert ibande District Municipality
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounting
MPAC	Municipal Public Accounts Committee
MEC	Member of the Executive Council
SALGA	South African Local Government Association

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. This is despite the fact that for the financial year ending 30 June 2020 the municipality had a deficit of R176 million due to once-of tranfer of inventory to local municipality of R153 million.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

I am responsible for the preparations of these unaudited annual financial statements set out on pages 4 to 62, in terms of Section 126(1) of the Local Government: Municipal Financial Act and which I have signed by the on behalf of the municiplaity on 02 October 2020.

Habile CA
Municipal Manager

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	155 140 134	189 917 092
Inventories	4	690 464	154 106 189
Receivables from exchange transactions	5	393 019	259 015
Receivables from non-exchange transactions	6	1 952 985	68 099
VAT receivable	7	23 989 019	12 533 192
		182 165 621	**356 883 587**
Non-Current Assets			
Heritage assets	8	159 250	159 250
Intangible assets	9	100 772	19 329
Property, plant and equipment	10	305 184 282	315 822 986
Receivables from non-exchange transactions	6	1 477 705	1 604 028
		306 922 009	**317 605 593**
Total Assets		**489 087 630**	**674 489 180**
Liabilities			
Current Liabilities			
Retirement benefit Obligation	11	99 002	148 222
Consumer deposits	12	46 734	21 140
Finance lease obligation	13	55 411	1 361 803
Long service provision	16	669 000	307 937
Payables from exchange transactions	14	74 547 585	92 148 793
Provision for bonus	15	4 098 409	3 697 495
Payables from non-exchange transactions	17	10 194 764	754 893
Unspent conditional grants and receipts	18	69 468	199 882
		89 780 373	**98 640 165**
Non-Current Liabilities			
Retirement benefit Obligation	11	729 000	1 703 034
Long service provision	16	6 231 000	5 611 902
		6 960 000	**7 314 936**
Total Liabilities		**96 740 373**	**105 955 101**
Net Assets		**392 347 257**	**568 534 079**
Accumulated surplus		392 347 257	568 534 035

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Gain on disposal of assets and liabilities		210 852	-
Interest received - investment	19	16 039 126	19 732 638
Other income	20	2 871 934	2 518 708
Rendering of services		995 486	584 844
Service charges	21	103 255	4 204
Total revenue from exchange transactions		**20 220 653**	**22 840 394**
Revenue from non-exchange transactions			
Transfers & subsidies received	22	307 601 414	499 268 080
Total revenue		**327 822 067**	**522 108 474**
Expenditure			
Depreciation and amortisation	23	(23 714 261)	(20 366 328)
Employee related costs	24	(173 340 664)	(154 723 384)
Finance costs	25	(710 808)	(673 790)
Impairment loss	26	(26 941)	-
Lease	27	(198 000)	(175 961)
Loss on disposal of assets and liabilities		-	(5 049)
Operating costs	28	(66 645 975)	(68 694 713)
Remuneration of councillors	29	(13 634 813)	(12 761 632)
Transfers and Subsidies	30	(225 737 383)	(178 241 001)
Total expenditure		**(504 008 845)**	**(435 641 858)**
(Deficit) surplus for the year		**(176 186 778)**	**86 466 616**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**482 067 419**	**482 067 419**
Changes in net assets		
Surplus for the year	86 466 616	86 466 616
Total changes	86 466 616	86 466 616
Restated* Balance at 01 July 2019	**568 534 035**	**568 534 035**
Changes in net assets		
Surplus for the year	(176 186 778)	(176 186 778)
Total changes	(176 186 778)	(176 186 778)
Balance at 30 June 2020	**392 347 257**	**392 347 257**

Note(s)

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		(1 789 312)	3 622 199
Grants		307 471 000	495 445 702
Interest income		16 039 126	19 732 638
Other receipts		3 893 014	2 539 848
		325 613 828	521 340 387
Payments			
Employee costs		(186 617 713)	(164 479 524)
Suppliers		66 954 591	(102 480 536)
Finance costs		(643 580)	(437 835)
Grants Paid		(225 737 385)	(178 363 264)
		(346 044 087)	(445 761 159)
Net cash flows from operating activities	32	**(20 430 259)**	**75 579 228**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(13 091 852)	(32 047 087)
Proceeds from sale of property, plant and equipment	10	210 854	(5 049)
Purchase of other intangible assets	9	(92 082)	-
Proceeds from sale of other intangible assets	9	1	-
Net cash flows from investing activities		**(12 973 079)**	**(32 052 136)**
Cash flows from financing activities			
Finance lease payments		(1 373 620)	(1 372 400)
Net increase/(decrease) in cash and cash equivalents		**(34 776 958)**	**42 154 692**
Cash and cash equivalents at the beginning of the year		189 917 092	147 762 400
Cash and cash equivalents at the end of the year	3	**155 140 134**	**189 917 092**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 471 920	-	**2 471 920**	103 255	**(2 368 665)**	Note 37(1)
Rendering of services	449 440	-	**449 440**	995 486	**546 046**	Note 37(2)
Other income - (rollup)	4 280 870	1 680 000	**5 960 870**	2 871 934	**(3 088 936)**	Note 37(3)
Interest received - investment	19 887 720	-	**19 887 720**	16 039 126	**(3 848 594)**	Note 37(4)
Gains on disposal of assets	-	-	**-**	210 852	**210 852**	
Total revenue from exchange transactions	**27 089 950**	**1 680 000**	**28 769 950**	**20 220 653**	**(8 549 297)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	309 871 000	(2 200 000)	**307 671 000**	307 601 414	**(69 586)**	Note 37(5)
Total revenue	**336 960 950**	**(520 000)**	**336 440 950**	**327 822 067**	**(8 618 883)**	
Expenditure						
Personnel	(178 248 358)	1 131 957	**(177 116 401)**	(173 340 664)	**3 775 737**	Note 37(6)
Remuneration of councillors	(14 274 435)	-	**(14 274 435)**	(13 634 813)	**639 622**	Note 37(7)
Depreciation and amortisation	(22 492 270)	-	**(22 492 270)**	(23 714 261)	**(1 221 991)**	Note 37(8)
Impairment loss/ Reversal of impairments	-	-	**-**	(26 941)	**(26 941)**	
Finance costs	-	-	**-**	(710 808)	**(710 808)**	Included in operating cost
Lease rentals on operating lease	-	-	**-**	(198 000)	**(198 000)**	Included in operating cost
Transfers and Subsidies	(76 241 390)	(152 299 913)	**(228 541 303)**	(225 737 383)	**2 803 920**	Note 37(9)
Operating Expenses	(66 125 467)	(5 749 253)	**(71 874 720)**	(66 645 975)	**5 228 745**	Note 37(10)
Total expenditure	**(357 381 920)**	**(156 917 209)**	**(514 299 129)**	**(504 008 845)**	**10 290 284**	
Deficit before taxation	**(20 420 970)**	**(157 437 209)**	**(177 858 179)**	**(176 186 778)**	**1 671 401**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(20 420 970)**	**(157 437 209)**	**(177 858 179)**	**(176 186 778)**	**1 671 401**	

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The district has finilised and prepared the annual financial statements on version 6.2 of mSCOA.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the list of assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 11.

1.3 Cash and cash equivalents

Cash and cash equivalents are measured at their fair value.

Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		indefinite
Buildings		
- Office Building	Straight line	30
- Laboratories	Straight line	30
- Disaster centres	Straight line	30
Plant and equipment	Straight line	5
Furniture and fixtures	Straight line	
- Office furniture	Straight line	7
- Elevator system	Straight line	20
- Transformer	Straight line	50
- Solar Panels	Straight line	7
Office equipment	Straight line	7
IT Equipment	Straight line	5
Lab equipment	Straight line	7
Communication equipment	Straight line	2
Motor vehicles	Straight line	
- Motor vehicles	Straight line	7
- Construction vehicles	Straight line	10.
Park facilities	Straight line	
- Public parking	Straight line	30
- Carports/garages/shelters	Straight line	15
Leased copiers	Straight line	3
Specialised vehicles	Straight line	
- Emergency vehicles	Straight line	12
Heritage	Straight line	indefinite

1.4 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The municipality discloses expenditure to repair and maintain property, plant and equipment in the notes relating to operational costs in the financial statements (see note 28).

The municipality discloses relevant informaton relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.5 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Accounting Policies

1.5 Intangible assets (continued)

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the unaudited annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a non-cash-generating asset's fair value less cost to sell and its value in use.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.6 Heritage assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Accounting Policies

1.7 Financial instruments (continued)

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.7 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Accounting Policies

1.7 Financial instruments (continued)

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.9 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of non cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non- cash- generating assets are assets other than cash generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

None

1.10 Impairment of non cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The Present value of the remaining service potential of a non cash generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asse.

Recognition and measurement

If the recoverable amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.10 Impairment of non cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Accumulated reserves

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Study Bursary assets

Initial recognition and measurement

The contractual obligation for the employees who receive study bursaries from the Municipality to work back to the Municipality after completing the studies is initially recorded as an asset at the amount paid by the Municipality to the institution of higher learning at the date of such payment..

Subsequent measurement

After initial recognition the right to receive the services is curried at cost less accumulated impairment losses.

Derecognition

The Municipality derecognises the right to receive services form employees when the employee have worked back or repaid the amount owed

1.13 Retirement benefit Obligation

Compulsory convertible preference shares [Compulsory convertible debentures] are compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible instruments and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the municipality, is included in equity.

Combined units are compound instruments, consisting of a debenture (liability) component and a share (equity) component. The debentures are carried at amortised cost, and any premium or discount on issue is written off over the redemption period using the effective interest rate method.

Issue costs are apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.14 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.17 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.18 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party,or exercise significant influence over the other party,or vice versa,or an enity that is subject to common control or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its acitivities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exist only when the stratetgic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers)

Related party transaction is a transfer of resources,services or obligations beween the reporting entity and a related party,regardless of whether a price is charged.

Significant influence is the power to participate in the financial and oeprating policy decisions of an entity,but is not control over those policies.

Management are those persond responsible for planning,directing and controlling the activities of the municipality,including those chaged with the governance of the municipality in accordance with legislation,in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence,or be influenced by , the management in their dealings with the municipality.

The Municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and /or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individial entity or person in the same circustances and terms and conditions are within the normal operating parameters establisehed by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above,the municipality discloses narrative inofrmation about the nature of the transactions and the related outstanding balances,to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Accounting Policies

1.26 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Offsetting

Assets,Liabilities,revenue and expenses have not been offsetted when offsetting is required or permitted by a standard of GRAP

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2020 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 37: Joint Arrangements

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8 100	8 100
Bank balances	154 896 387	189 908 992
Other cash and cash equivalents - Solidarity Fund	235 647	-
	155 140 134	**189 917 092**

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2020	Bank statement balances 30 June 2019	Bank statement balances 30 June 2018	Cash book balances 30 June 2020	Cash book balances 30 June 2019	Cash book balances 30 June 2018
ABSA BANK - Current Account - 010-5397-1462	-	-	3 301 021	-	-	3 302 475
FNB BANK - Current Account - 626-3839-6334	9 734 812	23 581 841	25 373 183	154 896 387	189 908 992	144 624 910
FNB BANK - Call Account - 626-1377-7848	145 134 801	166 505 482	119 149 124	-	-	-
FNB BANK (Solidarity fund) - Current Account - 628-5650-7750	235 646	-	-	235 646	-	-
Total	**155 105 259**	**190 087 323**	**147 823 328**	**155 132 033**	**189 908 992**	**147 927 385**

4. Inventories

Work in progress	-	153 394 779
Inventory stores	690 464	711 410
	690 464	**154 106 189**

Work in progress

For 2019 financial year the Regional Bulk Infrastructure Grant (RBIG) was alllocated to GSDM in terms of the gazetted DORA for the construction of water and waste water projects for Chief Albert Luthuli, Dipaliseng, Mkhondo and Msukaligwa local municipalities. The projects that were not completed were accounted for as inventory in 2019. During the 2020 financial year the DORA was amended where the RBIG grant was now allocated to the relevant local municipality . Since these projects are now gazetted to the relevant local municipalities this meant that the work in progress on these projects will now have to be accounted for by the local municipalities. Therefore the work in progress which was previously accounted for as inventory by GSDM in 2019 amounting to R153 million had to be tranferred to the local municipalities on 1 July 2020. This was done by expensing the grants and subsidies expenditure account which resulted in massive loss for the year in the district.

Inventory pledged as security

No inventory was pledged as security

5. Receivables from exchange transactions

Trade debtors	364 819	230 815
Deposits	28 200	28 200
	393 019	**259 015**

Credit quality of receivables from exchange transactions

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Figures in Rand	2020	2019

5. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 393 019 (2019: R259 015 -) were past due but not impaired.

6. Receivables from non-exchange transactions

	2020	2019
Study bursaries	1 477 705	1 604 028
Consumer debtors - Rates	1 889 430	-
Other debtors	63 555	68 099
	3 430 690	**1 672 127**

	2020	2019
Non-current assets	1 477 705	1 604 028
Current assets	1 952 985	68 099
	3 430 690	**1 672 127**

SALGA -prepayment

A SALGA prepayment - The municipality made use of incentives provided from SALGA for early payments of fees. This incentives could only be utilised if payment was made before 30 June 2020

7. VAT receivable

	2020	2019
VAT	23 989 019	12 533 192

8. Heritage assets

	2020			2019		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Mayoral chain and potraits	159 250	-	159 250	159 250	-	159 250

Reconciliation of heritage assets - June 2020

	Opening balance	Total
Mayoral chain and portraits	159 250	159 250

Reconciliation of heritage assets - June 2019

	Opening balance	Total
Mayoral chain and portraits	159 250	159 250

Pledged as security

Carrying value of heritage assets is not pledged as security

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

9. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	885 138	(784 366)	100 772	1 007 054	(987 725)	19 329

Reconciliation of intangible assets - June 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	19 330	92 084	(1)	(10 639)	100 723

Reconciliation of intangible assets - June 2019

	Opening balance	Amortisation	Total
Computer software, other	68 891	(49 561)	19 330

Pledged as security

The municipality do not have assets pledged as security

Notes to the Unaudited Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	360 000	-	360 000	360 000	-	360 000
Buildings	371 230 848	(108 484 503)	262 746 345	366 945 179	(95 891 384)	271 053 795
Plant and machinery	31 432 451	(17 044 236)	14 388 215	30 384 513	(14 180 375)	16 204 138
Furniture and fixtures	11 804 621	(8 160 690)	3 643 931	11 215 499	(7 285 385)	3 930 114
Motor vehicles	40 607 823	(23 629 051)	16 978 772	37 435 015	(19 762 188)	17 672 827
IT equipment	16 581 079	(9 514 060)	7 067 019	15 632 148	(9 030 036)	6 602 112
Total	**472 016 822**	**(166 832 540)**	**305 184 282**	**461 972 354**	**(146 149 368)**	**315 822 986**

Reconciliation of property, plant and equipment - June 2020

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	360 000	-	-	-	-	-	360 000
Buildings	271 053 795	39 234 305	(2)	(34 894 700)	(12 620 112)	(26 941)	262 746 345
Plant and machinery	16 208 828	1 212 440	77	-	(3 033 127)	-	14 388 215
Furniture and fixtures	3 930 114	712 086	-	-	(998 272)	-	3 643 931
Motor vehicles	17 672 827	3 483 758	(11 170)	-	(4 166 642)	-	16 978 772
IT equipment	6 602 112	3 352 729	(2 354)	-	(2 885 469)	-	7 067 019
	315 827 676	**47 995 318**	**(13 449)**	**(34 894 700)**	**(23 703 622)**	**(26 941)**	**305 184 282**

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2019

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	360 000	-	-	-	-	360 000
Buildings	260 895 117	21 370 102	-	(11 211 424)	-	271 053 795
Plant and machinery	15 928 348	2 948 093	(3 694)	(2 669 926)	-	16 204 138
Furniture and fixtures	4 449 265	392 736	(5 759)	(906 119)	(13)	3 930 114
Motor vehicles	15 312 767	5 364 444	-	(3 004 384)	-	17 672 827
IT equipment	7 147 171	1 998 175	(16 622)	(2 520 226)	-	6 602 112
	304 092 668	**32 073 550**	**(26 075)**	**(20 312 079)**	**(13)**	**315 822 986**

Reconciliation of Work-in-Progress - June 2020

	Included within Building PPE	Total
Opening balance	34 889 203	34 889 203
Additions/capital expenditure	4 666 865	4 666 865
Transferred to completed items	(39 556 068)	(39 556 068)
	-	-

Reconciliation of Work-in-Progress - June 2019

	Included within Building PPE	Total
Opening balance	13 889 259	13 889 259
Additions/capital expenditure	20 999 944	20 999 944
	34 889 203	**34 889 203**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

11. Retirement benefit obligations

Defined benefit plan

Post retirement medical aid plan

The post employment medical aid plan liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by member basis, taking into account matters arising in respect of principal member and their spouses. Ages were calculated as age last birthday on 30 June 2020.

The Project Unit Credit Method was used as prescribed by GRAP 25. The method is based on the approximation that the post-retirement benefit is normally built up over the employee`s working life

The actuarial valuation of PRMA liability involves the following:

The projection of future post retirement medical contributions subsidy cashflow, taking into account probabilities of survival withdraw, ill-health retirement and death in service. The medical contribution subsidies in respect of the audit depedants of employees, increasing the projected subsidy cashflows in line with expected long term contribution escalation. Discounting these cashflows in order to express the post employment medical aid plan liability in the current Rand terms.

The amount represents the municipality`s liability for post-employment medical aid benefit for the two remaining pensioners under the new defunctional plan. Current employees do not enjoy post-retirement medical aid benefits.

Pension
Employees of the municipality belong to the approved Pension Funds. These are defined contribution plans. The municipality has no legal or contractual obligation to pay further contributions. Contributions are recognised as an expense in the statement of financial performance in the year in which they become payable

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Balance at 1 July	1 851 256	741 216
Contributions paid	(92 986)	(126 863)
Interest cost	164 181	61 593
Actuarial (gain) / loss	(1 094 451)	1 175 310
	828 000	**1 851 256**
Non-current liabilities	729 000	1 703 034
Current liabilities	99 000	148 222
	828 000	**1 851 256**

12. Consumer deposits

Rental of facilities	46 734	21 140

Figures in Rand	2020	2019

13. Finance lease obligation

Minimum lease payments due		
- within one year	56 139	1 433 979
	56 139	1 433 979
less: future finance charges	(728)	(72 176)
Present value of minimum lease payments	**55 411**	**1 361 803**

Present value of minimum lease payments due		
- within one year (current)	55 411	1 361 803

Gert Sibande District Municipality lease certain computer equipment under finance leases from Vodacom and Nashua.

The average lease term was 2-3 years and the average effective borrowing rate was 10.5% (2019: 10.5%).

Interest rates are fixed t the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

14. Payables from exchange transactions

Payables	18 594 094	47 499 114
Retentions	35 652 822	31 410 060
Staff leave payments	20 152 743	13 211 493
Advance payments	62 926	28 126
Health Payment in advance	85 000	-
	74 547 585	**92 148 793**

15. Provision for bonus

Reconciliation of provisions - June 2020

	Opening Balance	Additions	Reversed during the year	Total
Provision for staff bonuses	2 988 805	3 389 719	(2 988 805)	3 389 719
Provision for performance bonuses	708 690	708 690	(708 690)	708 690
	3 697 495	**4 098 409**	**(3 697 495)**	**4 098 409**

Reconciliation of provisions - June 2019

	Opening Balance	Additions	Reversed during the year	Total
Provision for staff bonuses	2 604 350	2 988 805	(2 604 350)	2 988 805
Provision for performance bonuses	382 981	708 690	(382 981)	708 690
	2 987 331	**3 697 495**	**(2 987 331)**	**3 697 495**

Provision for staff bonuses

Staff bonus to employees is in accordance with the collective bargaining agreement. Provision is made for the full cost of accrued bonuses at reporting date. The provision will be realised as employees bonuses are paid out. Additional relates to full financial impact per department for the period under review.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

15. Provision for bonus (continued)

Provision for performance bonuses

Performance bonuses are being paid to the Accounting Officer and General Managers after performance evaluation has been done.

16. Long service provision

Carrying value		
Balance at 1 July	5 919 839	4 856 855
Current service cost	941 149	656 540
Interest cost	479 399	376 201
Benefits vesting	(390 565)	(869 238)
Actuarial loss/(gain)	(49 820)	899 481
	6 900 002	**5 919 839**

Non-current liabilities		
Designated at fair value	6 231 000	5 611 902

Current liabilities		
Designated at fair value	669 000	307 937

Long service provision

The Municipality offers employees long service awards for every five years of service completed, from 5 years of service to 45 years of service, inclusive.The employee is granted long service award in the month that each completed milestone is reached. Working days awarded are valued at 1/250th of annual earnings per day.

In estimating the unfunded liability for the long service award of the municipality , a number of acturial assumptions are required . In calculating the unfunded liability a number of 306 eligible employees as at 30th June 2020 were used.

The following key financial assumptions are used:

Key financial assumptions	**Value p.a**
Discount rate	7.63%
General earnings inflation rate (long-term)	4.16%
Net effective discount rate	3.33%

The liability at the valuation date was recalculated to show the effect of:

i) A 1% increase and decrease in the assumed general earning inflation rates:
ii) A 1% increase and decrease in the discount rate;
iii) A 2 year increase and decrease in the assumed average retirement age of eligible employees; and
iv) A two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

Sensitivity Analysis on the unfunded accrued liability:

Assumptions	Change	Liability	%change
Central assumptions		6 900 000	
General earnings inflation rate	+1%	7 381 000	7%
	-1%	6 465 000	-6%
Discount rate	+1%	6 453 000	-6%
	-1%	7 404 000	7%
Average retirement age	+2yrs	7 369 000	7%
	-2yrs	6 348 000	-8%
Withdrawal rate	x200%	5 308 000	-23%
	x50%	8 030 000	16%

Sensitivity analysis on current service and interest costs for the year ending 30 June 2020:

Assumptions	Change	Current service cost	Interest costs	Total	% change
Central assumptions		941 100	479 400	1 420 500	
General earnings inflation rate	+1%	1 027 600	517 100	1 544 700	9%
	-1%	864 700	445 500	1 310 200	-8%
Discount rate	+1%	870 400	498 100	1 368 500	-4%
	-1%	1 022 200	456 400	1 478 600	4%
Average retirement age	+2%	995 800	514 100	1 509 900	6%
	-2yrs	876 700	439 500	1 316 200	-7%
Withdrawal rate	x50%	1 180 200	570 400	1 750 600	23%

17. Payable from non-exchange transactions

	2020	2019
Other creditors	9 959 115	754 893
Solidarity fund	235 649	-
	10 194 764	**754 893**

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2020	2019
Department of water and sanitation(DWS)	-	199 882
Road asset management grant (RAMS)	69 586	-
	69 586	**199 882**

19. Investment revenue

Interest revenue	2020	2019
Bank	16 039 126	19 732 638

20. Other income

	2020	2019
Sundry	2 584 153	2 296 745
LG Seta	236 703	192 415
Refund telephone	51 078	29 548
	2 871 934	**2 518 708**

21. Service charges

	2020	2019
Water testing services	103 255	4 204

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

22. Transfers and subsidies received

Operating grants		
Equitable share	28 901 763	11 400 000
Revenue replacement grant	263 035 237	271 007 000
Infrastructure skills development grant (ISDG)	9 000 000	5 553 000
Department of water and sanitation (DWS)	-	204 122 080
Road asset management grant (RAMS)	2 381 414	2 314 000
Finance management grant (FMG)	1 000 000	1 000 000
Expanded public work programme grant (EPWP)	3 283 000	3 872 000
	307 601 414	**499 268 080**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The amount allocated for Equitable Share in the 2020 financial year as per the Division of Revenue Act (DORA) amounted to R28 901 763. Treasury reduce the Equitable Share transferred for 2020 with R200 000 that relates to the unspent grant from Department of Water and Sanitation in 2018/2019 financial year . The Municipality reallocated the amount of R199 882 to the Equitable share.

Revenue replacement grant

The purpose of the revenue replacement grant is to fund basic infrastructure within the areas and funding business administration costs.

Infrastructure skills development grant (ISDG)

Balance unspent at beginning of year	-	140 298
Current-year receipts	9 000 000	5 553 000
Conditions met - transferred to revenue	(9 000 000)	(5 553 000)
Other	-	(140 298)
	-	**-**

The purpose of the grant is to strengthen capacity of local government, to effectively and efficiently deliver quality infrastructure,by creating the pool of skill available

Department of water and sanitation (DWS)

Balance unspent at beginning of year	(199 882)	3 881 962
Current-year receipts	-	200 440 000
Conditions met - transferred to revenue	-	(204 122 080)
Amount refunded back to National Treasury through Equitable Share (National Treasury reduced the Equitable Share payment to the municiplaity with R 200 000)	199 882	-
	-	**(199 882)**

The purpose of the grant is to facilitate the panning,acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water

Refer to the explanation under Equitable Share for the process followed for the refund of the unspend amount.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

22. Transfers and subsidies received (continued)

Road asset management grant (RAMS)

Current-year receipts	2 451 000	2 314 000
Conditions met - transferred to revenue	(2 381 414)	(2 314 000)
	69 586	**-**

Conditions still to be met due to COVIOD19 lock down restrictions - remain liabilities (see note 18).

The purpose of the grant is to assist rural district municipalities to set up rural roads asset management systems

Finance management grant (FMG)

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

The purpose of the grant is to promote and support reforms in the financial management by building capacity in municipalities to implement the MFMA

Expanded public works programme (EPWP)

Current-year receipts	3 283 000	3 872 000
	(3 283 000)	(3 872 000)
	-	-

The purpose of the grant is to incentives provincial departments to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas

23. Depreciation and amortisation

Property, plant and equipment	23 703 622	20 312 079
Intangible assets	10 639	49 561
	23 714 261	**20 361 640**

24. Employee related costs

Basic	108 162 275	97 766 722
Bonus	9 428 291	7 630 706
Medical aid - company contributions	6 005 729	5 585 882
UIF	572 496	522 615
Actuarial (gain) / loss	(1 144 271)	2 074 791
Leave pay accrual charge	8 137 878	4 686 166
Group insurance	1 896 597	1 668 431
Bargaining council	33 300	30 133
Overtime payments	1 929 972	754 658
Car allowance	16 509 042	14 694 422
Housing benefits and allowances	1 370 207	1 021 992
Telephone allowance	1 297 100	1 276 901
Pension fund	19 142 048	17 009 965
	173 340 664	**154 723 384**

Annual remuneration of key management personel:

Figures in Rand	2020	2019

24. Employee related costs (continued)

Remuneration of municipal manager CA Habile

Annual Remuneration	1 134 333	1 223 652
Car Allowance	240 000	240 000
Performance Bonuses and annual bonus	164 658	156 222
Contributions to UIF, Medical and Pension Funds	164 466	179 018
	1 703 457	**1 798 892**

Remuneration of chief finance officer ZR Buthelezi

Annual Remuneration	1 091 367	1 125 711
Car Allowance	120 000	120 000
Performance Bonuses and annual bonus	186 686	129 684
Contributions to UIF, Medical and Pension Funds	1 785	14 679
	1 399 838	**1 390 074**

General manager planning MJ Mkhonza

Annual Remuneration	796 812	886 989
Car Allowance	96 000	96 000
Performance Bonuses and annual bonus	135 466	71 600
Contributions to UIF, Medical and Pension Funds	173 464	174 900
	1 201 742	**1 229 489**

General manager corporate service NC Ndhlovu

Annual Remuneration	736 327	791 777
Car Allowance	180 000	180 000
Performance Bonuses and annual bonus	125 466	-
Contributions to UIF, Medical and Pension Funds	159 948	160 087
	1 201 742	**1 131 864**

General manager community and social services ME Michele

Annual Remuneration	817 286	881 635
Car Allowance	100 000	100 000
Performance Bonuses and annual bonus	135 466	51 143
Contributions to UIF, Medical and Pension Funds	145 656	147 189
	1 198 409	**1 179 967**

General infrastructure techinical services ME Thabethe

Annual Remuneration	833 699	914 200
Car Allowance	180 000	180 000
Performance Bonuses and annual bonus	111 314	105 611
Contributions to UIF, Medical and Pension Funds	148 610	129 865
	1 273 623	**1 329 676**

Figures in Rand	2020	2019

25. Finance costs

Long service awards	479 399	376 201
Finance leases	67 228	235 955
Post retirement medical benefit	164 181	61 593
	710 808	**673 749**

26. Impairment loss

Impairments		
Property, plant and equipment	26 941	-
Two guardhouses were disposed and impared to R1.00 during the financial year.		

27. Leases

Authorised operating expenditure - Govan Mbeki LM		
paid during the year	198 000	175 961

The Committed expenditure relates to rental of offices in Evander from Govan Mbeki LM and will be financed by available bank facilities,retained surplises,existing cash resources and funds internally generated.

Goven Mbeki LM

Significant leasing arrangements include:
- that there is no contingent rent payment
- there is no purchase option in the rental contract and there is provision for 10% escalation per year
- there is no restrictions imposed by lease arrangements,such as return of net surplus,return of capital contributions,dividends or similar distributions,additional debt and further leasing

Operating lease commitments - as lessee (expenses)		
- within one year	217 800	198 000
-later than one year and not later than five years	-	217 800
	217 800	**415 800**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

28. Operating costs

Advertising	273 419	462 243
Auditors remuneration	4 107 896	4 901 904
Bank charges	54 933	94 987
Cleaning	1 326 499	637 790
Legal fees	3 080 677	3 166 409
Donations	1 781 860	2 279 106
Entertainment	1 179 352	1 297 972
Insurance	1 734 075	1 200 314
IT expenses	5 040 048	4 481 812
Motor vehicle expenses	6 635 655	4 677 440
Postage and courier	4 679	3 669
Printing and stationery	2 013 175	2 924 453
Protective clothing	254 060	346 322
Repairs and maintenance	8 015 120	7 519 263
Royalties and license fees	3 009 101	1 163 853
Contracted security	2 498 818	6 384 536
Welfare and Promotions	58 999	86 896
Subscriptions and membership fees	2 022 545	1 957 216
Telephone and fax	3 599 751	3 599 634
Training and Seminars	3 092 845	3 145 556
Travel - local	4 581 949	6 046 956
Technical support	2 703 111	2 321 009
Promotion of the district	1 559 836	1 585 758
Public Paticipation	1 653 683	3 219 975
Mayoral Imbizo	1 046 951	876 015
Municipal and other services	4 203 674	3 650 760
Audit committee	365 333	430 677
Workmens compensation	747 931	232 188
	66 645 975	**68 694 713**

29. Remuneration of councillors

Executive Mayor	1 087 797	1 054 052
Mayoral committee members	3 307 303	2 755 217
Other councillors	3 781 488	3 697 266
Speaker	878 397	851 425
Contributions	4 579 827	4 403 712
	13 634 812	**12 761 672**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

29. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speake, Chief Whip and Mayoral Committee Members as well as MPAC chairperson are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

The Executive Mayor has full-time bodyguards.

The summary of remuneration of councillors are as follows:

Executive Mayor	Basic	Car allowance	Cellphone allowance	Pension and medical aid	Total
Chirwa MG	682 824	261 749	40 800	102 423	1 087 797

Speaker	Basic	Car allowance	Cellphone allowance	Pension and medical aid	Total
Nkosi JM	546 258	209 399	40 800	81 938	878 396

Chief Whip	Basic	Car allowance	Cellphone allowance	Pension and medical aid	Total
Nkosi SGT	512 117	196 311	40 800	76 817	826 047

Mayoral Committee	Basic	Car allowance	Cellphone allowance	Pension and medical aid	Total
Total for Mayoral Committee Members	3 307 303	1 319 899	275 861	649 844	5 552 908

Other Councillors	Basic	Car allowance	Cellphone allowance	Pension and medical aid	Total
Total for other councillors	3 288 808	1 222 514	367 000	411 141	5 289 664

30. Transfers and subsidies paid

	2020	2019
Other subsidies		
Grants paid to local municipalities	225 737 383	178 241 001

31. Auditor's fees

	2020	2019
Audit fees	4 107 896	4 901 904

Figures in Rand	2020	2019

32. Cash (used in) generated from operations

(Deficit) surplus	(176 186 778)	86 877 680
Adjustments for:		
Depreciation and amortisation	23 703 622	20 316 769
(Loss) gain on sale of assets and liabilities	(210 852)	5 049
Amortisation of -Intangible assets	10 639	49 561
Acturial losses /(gains)	(1 144 214)	2 074 791
Finance costs - Retirement benifit obligation	164 181	61 593
Finance cost - Long service award	479 399	376 201
Impairment	26 941	-
Movements in long service award	2 124 375	-
Movements in retirement benefit obligation	(1 666 834)	672 246
Movements in provisions	400 914	(301 643)
Finance cost-Leases	67 228	235 955
Changes in working capital:		
Inventories	153 415 671	(73 053 332)
Receivables from exchange transactions	(134 004)	3 421 968
Other receivables from non-exchange transactions	(1 884 886)	(37 835)
Prepayments	-	(350 982)
Long term receivables	126 323	-
Payables from non exhange transactions	(17 601 208)	754 893
Payables from exchange transactions	9 439 871	29 272 484
Movement in VAT recievables	(11 455 827)	9 005 068
Unspent conditional grants and receipts	(130 414)	(3 822 378)
Consumer deposits	25 594	21 140
	(20 430 259)	**75 579 228**

33. Commitments

Capital commitments

Already contracted for but not provided for		
• Property, plant and equipment	-	2 194 342
Total capital commitments		
Already contracted for but not provided for	-	2 194 342

Authorised operational expenditure

Already contracted for but not provided for		
• Projects and operations - Projects funded by Gert Sibande District	12 098 721	15 545 143
Committements entered into as implementing agent (RBIG projects)		
• RBIG projects funded by the Local municipalities	478 103 772	113 945 164
Total commitments		
Already contracted for but not provided for	12 098 721	15 545 143
RBIG projects funded by the local municipalities	478 103 772	113 945 164
Capital commitments	-	2 194 342
	490 202 493	**131 684 649**

33. Commitments (continued)

GSDM commitments:

This committed expenditure relates to property and projects as well as operational commitments and will be financed by retained surpluses, existing cash resources, funds internally generated.

RBIG commitments entered into as implementing agent:

During the 2019/2020 financial period GSDM, DWS, Chief Albert Luthuli, Mkhondo, Dipaliseng and Msukaligwa local municipality entered into agreement where it was agreed that GSDM will continue to implement the RBIG project on behalf of the local municipalities. In terms of the agreement GSDM was given authority to enter into agreement with service providers for the construction of the water and waste water projects. The funding of these projects are included in the budgets of the local municipalities through RBIG grant allocation as gazetted by National Treasury. The above commitment of R469 565 578 relates those projects already contracted to by GSDM on behalf of the local municipalities.

34. Financial instruments disclosure

Categories of financial instruments

June 2020

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	393 019	393 019
Receivables from non-exchange transactions	-	3 430 690	3 430 690
Cash and cash equivalents	155 140 134	-	155 140 134
	155 140 134	**3 823 709**	**158 963 843**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	74 547 585	74 547 585
Taxes and transfers payable (non-exchange)	10 194 764	10 194 764
	84 742 349	**84 742 349**

June 2019

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	259 015	259 015
Receivables from non-exchange transactions	-	1 672 127	1 672 127
Cash and cash equivalents	189 917 092	-	189 917 092
	189 917 092	**1 931 142**	**191 848 234**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	92 148 793	92 148 793
Taxes and transfers payable (non-exchange)	754 893	754 893
	92 903 686	**92 903 686**

Figures in Rand	2020	2019

35. Contingencies

Contingent liabilities for the period ended 30 June 2020

Inhlakanipho Consultants-Contractual

The dispute arose out of tender 11/2007: Upgrading of Empuluzi Water Treatment Works

Plaintiff is claiming R3 402 590 (2019: R3 402 590) . The estimated legal cost to date amounts to R1 614 000 (2019: R1 614 000). The matter was sucessfully defended and the claim was dismissed with cost. Plaintiff was granted leave to appeal.

Hlakoapitsi CC

Hlokoapitsi is seeking damages of R127 006 (2019: R127 006) Judgement was received on 17 March 2015 in favour of GSDM.

Estimated legal cost is amounts to approxamitely R200 000 (2019: R200 000). Judge ruled in favour of GSDM. Plaintiff might take GSDM to trial.

Aqua Transport & Plant Hire vs GSDM

Plaintiff is suing council to the amount of R47 570 (2019: R47 570). The matter is before the Ermelo Magistrates court. Legal fees is estimated at R59 000 (2019: R59 000). Parties intends to settle matter out of court.

Tactical Security Services CC vs GSDM

Plaintiff is suing council to the amount of R1 013 990.(2019: R1 013 990). The matter is before the high court (Gauteng Division Pretoria). The estimated legal fees is R360 000.(2019: R360 000) to date. The matter is set down for trial.

Vermaak N/PG Glass vs GSDM

Plaintiff is suing council to the amount of R15 914.(2019: R15 914)The matter will be in front of the Ermelo Magistrate's court under case number 2323/2017. The estimated legal fees to date amounts to R100 000. (2019: R100 000) Application for summary judgement by plaintiff was dismissed with cost. The matter is at discovery stage. There is a good prospect of successfully defending the matter.

Methula NF vs GSDM

Plaintiff suing GSDM for R1 100 000 (2019: R1 100 000) as a result of an accident in which plaintiff sustained bodily injuries. Legal fees to date amounts to R380 000 (2019: R380 000). Matter is in pleading stage hence prospect of defence is unknown.

Mr. M vs GSDM

Mr. M is suing GSDM for unfair dismissal in the Labour Court. The amount is yet to be determined. The legal cost to date estimated amounts to R360 000 (2019: R360 000). Awaiting trial date.

BDW Eiendomme CC vs GSDM/VS Nzimande

BDW Eiendomme CC is suing GSDM as a result of a motor vehicle accident. Legal council estimates financial exposure including cost to amount to R200 000 (2019:R250 000) Awaiting trial date.
Detailed information on pending cases can be obtained in the claims register of the municipality.

SAMWU on behalf of Mr M v GSDM.

Application Instututed by Mr M for court review and set aside arbitration award. Estimated costs of the financial exposure (inclusive of costs and disbursements amount to R500 000 (2019: R500 000). Mr M was dismissed and is in the process of taking the matter for review

GSDM vs SAMWU on behalf of Ms M
Application instituted by GSDM for the court to review and set aside arbitration award. Estimated R650 000 (2019 :R650 000). Ms M was dismissed and received an award for reinstsatement and compensation, which GSDM is in the process for review.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

35. Contingencies (continued)

Afri - infra v GSDM & others

GSDM is being sued for payment for work done at Lekwa local Municipality.Amount claimed R747 248.68. Estimated Legal costs R360 000. The matter is awaiting case management by Middleburg high court.

36. Related parties

Relationships	
Accounting Officer - CA Habile	Management
Chief Financial Officer - ZA Buthelezi	Management
General Manager: Corporate services - NC Ndhlovu	Management
General Manager: Community and Social Services - ME Michele	Management
General Manager: Planning and Economic Development - MJ Mkhonza	Management
General Manager: Infrastructure and Technical Servecis - ME Thabethe	Management

Refer to the note for Employee related costs for amounts paid to management

Related party transactions

Contributions paid to related parties		
SALGA	1 753 303	1 473 270
SALGA - prepayment	1 889 430	-

SLGA prepayment - The municipality made use of incentives provided form SALGA for early payments of fees. This incentives could only be utilised if payment was completed before 30 June 2020

37. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables - Accrual payables	18 556 617	-	-	-
Trade and other payables - Retentions	35 652 822	-	-	-

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables - Accrual payables	47 466 328	-	-	-
Trade and other payables - Retentions	31 410 060	-	-	-

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

37. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial instruments exposed to credit risk at year end were as follows:

Financial instrument	June 2020	June 2019
Trade and other receivables from exchange transactions (At amortised cost)	393 019	259 015
Other receivables from non-exchanged transactions - non-current (At amortised cost)	1 477 705	1 604 028
Other receivables from non-exchanged transactions - current (At amortised cost)	1 952 985	68 099
Cash and cash equivalents (At fair value)	155 140 133	189 917 092
Trade and other payables from exchange transactions (At amortised cost)	74 510 108	92 116 007
Trade and other payables from non-exchange transactions (At amortised cost)	10 194 764	754 893

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 753 303	1 473 270
Amount paid - current year	(1 753 303)	(1 473 270)
	-	-

PAYE, UIF and SKILLS

Current year subscription / fee	34 699 596	31 992 100
Amount paid - current year	(34 699 596)	(31 992 100)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	44 383 784	39 270 741
Amount paid - current year	(44 383 784)	(39 270 741)
	-	-

VAT

VAT receivable	23 989 019	12 533 192

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year year.

Notes to the Unaudited Annual Financial Statements

39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the unaudited annual financial statements

Deviations up to June 2019

The amount for deviations as at 30 June 2019 was R1 990 510

Deviations up to June 2020

The amount for deviations as at 30 June 2020 is R11 749 117. See details below:

The deviations relates to the hiring of water tankers for the period April 2020 to June 2020, to assist with provision of water to the rural communities during the lock down period.

Suppliers name	Diviation	Reason for Deviation	Amount
A1 Glass and Aluminuim	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(1)	407 075
Absolute View	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	774 759
AFRI Franco Investment	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	583 525
Come With Me	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(ii)	625 648
Dlaba Ndlondlo	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(ii)	47 708
DS Thwala Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	464 350

Notes to the Unaudited Annual Financial Statements

Figures in Rand			2020	2019

39. Deviation from supply chain management regulations (continued)

Duiker Jabu Logistics	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	634 244
Indlunkulu Transport	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	697 059
Jabula Logistics	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	517 253
Khaymlee Indlunkulu Tansport	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	393 124
Lesiamo Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	225 580
List Cleaning Chem	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	351 572
Luphiwa Construction	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	612 684
Nkosana Sombu Construction	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	239 715
Okwanu Nkwanyana Construction	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	793 473
Phambile Boguliwe	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v)	446 367

Notes to the Unaudited Annual Financial Statements

Figures in Rand			2020	2019

39. Deviation from supply chain management regulations (continued)

Rumimanzi (Pty) Ltd	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	393 545
Sheshelivuthwe Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	617 128
Sokza Construction	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	653 424
Sunduzile Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	771 416
Thokozile Mpumelelo	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	830 329
Zathula Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	221 076
Zipzep Trading	Advertise for less then stipulated days due to COVID-19 emergency procurement	SCM Regulations, Section 36(a)(v) and (b)	448 063
			11 749 117

40. Budget differences

Differences between budget and actual amounts basis of preparation and presentation

Note 1: Decrease in water testing especially for private clients and lesser subcontracting from uMhlathuze.

Note 2: Increase in inspection conducted especially during this COVID19 pandemic and an on going drive by the GSDM to maximise revenue.

Note 3: Rand water refund which was due and was not received. The municipality will continously pursue this matter.

Note 4: Interest rate deceased drastically due to the COVID 19 pandemic.

Notes to the Unaudited Annual Financial Statements

40. Budget differences (continued)

Note 5: Savings on the RRAMS grant which will be rolled over to the current year.

Note 6: Savings due to resignations during the year.

Note 7: Savings due to 4% increase which was lower than the estimated budget of 10%.

Note 8: The assets depreciated exceeded the estimated budget due to assets useful life which are included in the assets register.

Note 9: Increase was due to the inventory which was transferred to Local Municipalities.

Note 10: Savings due COVID 19 pandemic, most officials were working from home and it was difficult to implement some of the activities.

41. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

June 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables form exchange transactions (reclasification 2 and error 2)	5	122 877	13 875	122 263	259 015
Cash and Cash Equivalant (error 3)	3	189 929 628	(12 536)	-	189 917 092
Payables form exchange transactions (error 1 and 4 and reclasification 3)	14	92 492 661	(411 025)	754 893	92 148 793
Payables form exchange transactions (reclasification 3)	17	-	-	(754 893)	754 893
Non - Current liabilities - retirement obligation (Reclasification 4)	11	1 851 256	-	(148 222)	1 703 034
Current liabilities - retirement obligation (Reclasification 4)	11	-	-	148 222	148 222
Non - Current liabilities - Long services awards (Reclasification 5)	16	5 919 839	-	(307 937)	5 611 902
Current liabilities - Long services awards (Reclasification 5)	16	-	-	307 937	307 937
		290 316 261	**(409 686)**	**122 263**	**290 850 888**

Statement of financial performance

June 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Operating costs (error 2 ,4 and 3 and reclassification 1)	28	(59 458 557)	(409 686)	(8 826 432)	(68 694 713)
Transfers and Subsidies (reclassified 1 and 5)	30	(187 189 696)	-	8 948 695	(178 241 001)
Surplus for the year		**(246 648 253)**	**(409 686)**	**122 263**	**(246 935 714)**

41. Prior-year adjustments (continued)

Prior- year Errors

Error no 1

Audit committee expences was reported as part of payables and is corrected as Operational cost (R378 239).

Error no 2

Correction of duplication of accrual payment for materials (R13 875)

Error no 3

Correction of double payments processed on the financial system (R1 340)

Error no 4

Correction of Trade payable payment not recognised in 2018/19 financial year (R32 785)

Prior year Reclassifications

The following reclassifications adjustment occurred:

Reclassifications

Reclassification 1

Transfer and Subsidies expenses reclassified as Operating Cost (R 8 826 432).

Reclassification 2

Payments in advance on Bursaries correctly clasified as Recievables form Exchange transactions from Transfers and Subsidies (R122 263).

Reclassification 3

RBIG core funding form Msukaligwa reclasified as Payables form Non-exchanged payables (R754 893)

Reclassification 4

Short term retirement obligation reclasified as Current Liabilities form Non-Current Libilities (R148 222)

Reclassification 5

Short term of Long service awards reclasified as Current Liabilities form Non-Current Libilities (R307 937)